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Director and Chief Medical Officer

FRED LEAF
Chief Operating Officer

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-8101

January 7, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

SUBJECT: **DEPARTMENT OF HEALTH SERVICES BILLING AND COLLECTIONS**

At the December 16, 2003 Board of Supervisors meeting, Supervisor Antonovich requested that the County Quality and Productivity Commission review the Department of Health Services' (DHS) billing and collections.

On December 19, 2003, the Auditor-Controller (A-C) advised us by memorandum that:

> "The area of DHS Billing and collection was addressed in the October 13, 1999 Consolidated Business Office Accounts Receivable Write-Off and Adjustment and the July 27, 2001 Delinquent Self-Pay Account Collections reports."

The A-C requested that we provide this implementation status of the recommendations included in the above reports to the Executive Office.

With respect to the Consolidated Business Office Accounts Receivable Write-Off and Adjustment report, there were 11 recommendations (Attachment I), which were implemented during the period of November 1999 to April 2000.

As for the Delinquent Self-Pay Account Collections audit report, and the follow-up review in November 2002, the follow-up report of November 5, 2002 (Attachment II) showed four of the eight recommendations fully implemented and the other four (#2, #3, #5, and #7) as partially implemented. Currently, recommendations #3 and #5 are fully implemented; recommendations #2 and #7 remain partially implemented. We are working towards full implementation of #2 and #7 by June 30, 2004.

We will continue to monitor the implementation of these two open recommendations and report on their status as part of the annual submission of the A-C Audit Recommendation Tracking Worksheet.

If you have any questions, please do not hesitate to contact me.

TLG:lg
312:013

c: Chief Administrative Officer
Executive Officer, Board of Supervisors
Auditor-Controller

(312-013)

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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ALAN T. SASAKI
AUDITOR-CONTROLLER

October 13, 1999

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavksy
Supervisor Michael D. Antonovich

From: Alan Sasaki
Auditor-Controller

Subject: DHS' CONSOLIDATED BUSINESS OFFICE - ACCOUNTS RECEIVABLE WRITE-OFF AND ADJUSTMENT REVIEW

Attached is our report on accounts receivable write-offs and adjustments at the Department of Health Services' (DHS) Consolidated Business Office (CBO). The CBO performs the billing and patient accounts receivable functions for LAC+USC Medical Center (LAC+USC), Martin Luther King, Jr./Drew Medical Center (King/Drew) and High Desert Hospital.

The CBO bills all Medi-Cal and Medicare inpatient accounts. Medi-Cal and Medicare outpatient accounts and all private insurance accounts are billed by Health Management Systems, Inc., (HMS) a contract billing agency. During FY 1997-98, HMS processed approximately 11% ($211 million) of the CBO's accounts receivable total billings. Self-pay accounts are referred to various collection agencies for identification of third party resources and/or further collection efforts.

The primary objective of our review was to determine if the CBO has established sufficient procedures and controls to prevent inappropriate account receivable write-offs and adjustments. Because accounts receivable represent potential revenue, any adjustments to accounts receivable should be reviewed for appropriateness.

Executive Summary

The CBO appears to have appropriate controls and procedures over most of the accounts receivable adjustments and write-offs. For example, we noted that accounts written-off due to billing inefficiencies are minimal. We did note areas where the CBO could make improvements. Most of the improvements needed are on accounts assigned to HMS.

Following are some of the areas where improvements can be made:

- **The CBO needs to monitor the adjustments and collection activity of accounts assigned to HMS. For example:**

  - Accounts assigned to HMS are not reconciled to ensure that all accounts are appropriately processed/billed. Without a reconciliation, the CBO does not know if adjustments to the accounts receivable system are accurate and if all accounts are accounted for.

  - Accounts assigned to HMS should be tested on a sample basis to ensure that accounts are processed appropriately and timely. While HMS is only paid for accounts collected on, HMS' efforts should still be monitored to ensure that accounts are billed/processed timely and revenues are maximized.

  - HMS should be instructed to report unpaid charges (e.g., Medi-Cal denials) requiring write-off to the CBO for management's review/approval and subsequent referral to TTC for write-off, if appropriate. For example, when the State denies outpatient Medi-Cal accounts, HMS adjusts the accounts off the accounts receivable system. These adjustments are not reviewed/approved by the CBO or transferred to TTC for write-off.

  - Collection activity on private insurance accounts processed by HMS is not monitored by the CBO. HMS adjusts private insurance accounts off the accounts receivable system for processing. Therefore, the CBO has no mechanism to monitor the collection activity or ensure that all accounts are dispositioned.

- **Additional controls need to be established to ensure Treatment Authorization Request (TAR) forms are processed timely and submitted to the CBO so that Medi-Cal charges can be billed.**

  Medi-Cal will not reimburse inpatient services provided to Medi-Cal patients without an approved TAR. The TAR documents the number of days approved for Medi-Cal reimbursement. Four of the ten accounts we reviewed were written off because a TAR form was not obtained. CBO appropriately requests/monitors outstanding TARs. However, 59% (or about $3.3 million) of the LAC+USC accounts written off during FY 1997-98 because of billing time limits were written off because TARs were not being received by the CBO.

- **The CBO needs to monitor unbilled Medi-Cal accounts more closely to ensure that all potentially billable accounts are billed.**

  We reviewed ten inpatient Medi-Cal accounts that were written off because the time limit for billing was exceeded. Three accounts had all the documents needed to bill Medi-Cal. Therefore, all three accounts should have been billed. Improved monitoring of unbilled accounts by the CBO could result in additional revenues being realized.

These and other issues along with our recommendations are discussed in more detail in the attached report.

Acknowledgement and Response

We thank the CBO management and staff for their cooperation and assistance during our review. DHS' response, attached, indicates that they have taken or are taking the recommended corrective actions.

ATS: PTM:KM
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Public Information Officer
Department of Health Services
Mark Finucane, Director
Art Bernal, Consolidated Business Office
Gary Wells, Director of Finance
Sachi Hamai, Inspection and Audit Division
Joanne Sturges, Executive Officer, Board of Supervisors
Audit Committee

Los Angeles County
Department of Health Services

Consolidated Business Office

Accounts Receivable Adjustment and Write-Off Review

October 13, 1999

Prepared by:
Department of Auditor-Controller

Audit Team

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Jackie Guevarra
Anna Volodinsky

Table of Contents

Department of Health Services
Consolidated Business Office
Accounts Receivable Adjustment/Write-off Review

Background

The Department of Health Services (DHS) uses the McKesson HBOC (formerly known as Huff, Barrington, Owens and Company) system to manage its accounts receivable (hereafter referred to as the A/R system). During FY 1997-98, DHS' six hospitals reported charges of $3.2 billion for inpatient and outpatient services. Almost $2.3 billion (72%) of the $3.2 billion in charges were subsequently adjusted or written off. Adjustments are made to reduce patient charges for amounts that should not be billed/collected [e.g., to reduce charges to patients' liability amounts as determined under the Ability-to-Pay (ATP) program]. Accounts receivable write-offs are made when charges are not collectible (e.g., because billing time limits were exceeded or when collection efforts have been exhausted).

Most of these adjustments/write-offs to patients' charges are required by State regulations and/or County policies. For example, almost one-half (or about $1 billion) of the adjustments were made to reduce charges for Medi-Cal contractual allowances (i.e., the difference between actual hospital charges and the Medi-Cal reimbursement rate). Another $526 million (23%) of the adjustments were required reduced patient charges as determined under the ATP program. Other types of adjustments/write-offs include denied Medi-Cal days/charges and accounts transferred to outside agencies for billing/collections efforts.

Generally, accounts that are determined to be uncollectible (e.g., Medi-Cal accounts that have exceeded the billing time frames) are removed from the hospitals' A/R system and transferred to the Treasurer and Tax Collector (TTC) for write-off. (The Medi-Cal contractual allowance adjustments and ATP program write-offs are not transferred to TTC.) Self-pay accounts are initially referred to an outside collection agency for further collection efforts. Once these collection efforts are exhausted, the accounts are referred to TTC for write-off or further collection efforts. TTC is responsible for writing off accounts, which are deemed uncollectible, within Board approved guidelines.

Scope and Objectives

We focused our review at DHS' Consolidated Business Office (CBO). The CBO performs hospital billing and accounts receivable functions for LAC+USC Medical Center (LAC+USC), Martin Luther King, Jr./Drew Medical Center (King/Drew) and High Desert Hospital. These three hospitals generate about 65% of DHS' hospital charges.

The primary objective of our review was to determine if the CBO has established sufficient procedures and controls to prevent inappropriate account receivable write-offs and adjustments. We evaluated the monitoring tools used by management to track adjustments and write-off activity. Our review included the examination, on a sample

basis, of patient accounts and discussions with the CBO management and staff regarding write-off and adjustment procedures.

We noted significant adjustments related to a contract billing agency, Health Management Systems, Inc. (HMS). Therefore, we also reviewed these adjustments and the monitoring of the billing services provided by HMS.

Health Management Systems, Inc.

DHS contracts with HMS to provide various billing, accounts receivable and consulting services. For instance, HMS bills all Medi-Cal and Medicare outpatient accounts for the CBO. In June 1996, we issued an audit report on HMS. The report contained recommendations for the CBO to improve the monitoring of HMS activity and their overall effectiveness in appropriately dispositioning referred accounts. During our current review, we noted that the CBO has not developed effective mechanisms to monitor HMS, as discussed in the following sections.

Reconciliation of Accounts Assigned to HMS

Patient accounts assigned to HMS are adjusted off the A/R system. For instance, all Medi-Cal and Medicare outpatient accounts are "pulled"/adjusted off the A/R system by HMS for billing. Once HMS bills these accounts, the total amount billed (not individual accounts) is posted to a control account on the A/R system. The CBO does not reconcile amounts "pulled" by HMS to amounts billed/processed by HMS.

HMS provides the CBO with monthly reports that summarize the total number of billed and unbilled accounts and the corresponding charges. However, the CBO does not review or reconcile the information to the A/R system. This increases the risk of inaccurate A/R information and unbilled or missing accounts. In fact, during our review of several significant and/or unusual accounts receivable adjustments initiated by HMS, the CBO staff were either unable to explain the adjustments because HMS did not provide adequate support or staff indicated that the adjustments were not accurate due to HMS posting errors.

Recommendation

1. **The CBO reconcile HMS activity to the A/R system and follow up on any discrepancies to ensure the accuracy of A/R data and to ensure that all accounts are billed/processed.**

Monitoring of HMS

The CBO does not review accounts assigned to HMS to ensure that accounts are processed appropriately and timely. While HMS is only paid for accounts collected on, HMS' efforts should still be monitored to ensure revenues are maximized. While it is not cost-effective to review all accounts, a sample of accounts should be selected to ensure

accounts are billed/processed appropriately and timely. For example, a review of individual accounts will show whether accounts are billed timely and/or transferred timely for further collection efforts or write-off. (HMS refers some accounts to an outside collection agency for further collection efforts. This is discussed further in the next section.)

The summary reports currently provided by HMS are not sufficient for these monitoring purposes. The CBO needs to obtain individual account information to monitor HMS' billing and collection activity.

Recommendation

2. **The CBO develop procedures to monitor the effectiveness of HMS' billing and follow-up activity by reviewing accounts assigned to HMS, on a sample basis, to ensure accounts are processed appropriately and timely.**

Denials on Accounts Assigned to HMS

If Medi-Cal or Medicare denies a claim and the account cannot be re-billed, HMS adjusts the charges off the A/R system. Claims can be denied for various reasons (e.g., the time limit to bill has expired or services are not covered, etc.). Depending on the reason for the denial, the patient may or may not be responsible for the charges. For example, if a Medi-Cal claim is denied because the time limit to bill had expired, the patient is not responsible for the charges (i.e., hospital responsible denials). However, if the claim is denied because the patient is not eligible for Medi-Cal benefits, then the patient may be responsible for the charges (i.e., patient responsible charges).

HMS refers patient responsible charges to the USCB, Inc. (formerly known as United States Credit Bureau), an outside collection agency, for further collection efforts. DHS contracts with USCB for collection services on self-pay accounts. Hospital responsible denials should be referred back to the CBO for management's approval of the write-off. However, HMS does not report hospital responsible denials to the CBO. This prevents the CBO from reviewing/approving denied accounts and identifying accounts that need to be referred to TTC for write-off.

We also noted that HMS records all Medi-Cal denials under adjustment code 23 and all Medicare denials under adjustment code 24, regardless of the reason for the denial. DHS has established various adjustment codes to identify the type of denial. The CBO should ensure that denied Medi-Cal/Medicare charges are identified by reason for the denial and coded appropriately on the A/R system. In addition, the CBO should monitor denials on HMS assigned accounts to identify any unusual trends/fluctuations in denials. For example, a significant increase in denials due to billing time limits may indicate that HMS is not processing billings timely.

Recommendations

3. The CBO instruct HMS to return denials requiring write-off (i.e., hospital responsible denials) to the CBO for management's review/approval and referral to TTC for write-off when appropriate.

4. The CBO require HMS to use the appropriate code when adjusting denied claims on the A/R system and monitor denials on HMS assigned accounts for unusual trends/fluctuations.

Monitoring of USCB Referrals

HMS provides the CBO with monthly reports of accounts referred to USCB. The CBO staff compiles the data from the monthly reports into a summary report for the last three fiscal years. However, this report is not used to monitor the trend of accounts referred to USCB. Significant fluctuations in referrals should be investigated to ensure the reason for the fluctuation is appropriate/reasonable.

Recommendation

5. The CBO investigate significant fluctuations in the number of accounts transferred to USCB by HMS for appropriateness.

Private Insurance/Prepaid Health Plans

HMS also performs the billing functions for all commercial insurance accounts, including prepaid health plans (PHP) in which Medi-Cal and/or Medicare participants assign their Medi-Cal and/or Medicare benefits to an HMO. The CBO needs to improve the monitoring of these accounts, as discussed below.

Prepaid Health Plan (PHP)/Medi-Cal

The CBO's PHP Unit monitors PHP/Medi-Cal accounts to ensure accounts are billed timely and revenue is maximized. Accounts over $55,000 are reviewed if they remain unbilled after 30 days. However, accounts under $55,000 are not reviewed unless they are unbilled for over 360 days. State policy requires PHP/Medi-Cal accounts to be billed within 60 days from discharge. Therefore, effective monitoring needs to occur on all accounts as they are nearing the allowable billing time frame.

PHP Unit staff indicated that unbilled accounts over 60 days are most likely due to untimely adjustments by HMS to change the account status from unbilled to billed. However, without monitoring, the CBO cannot ensure that accounts are billed timely and/or classified appropriately.

Recommendation

6. **The CBO revise the PHP Unit's procedures to ensure that PHP/Medi-Cal accounts are billed within the State required timeframe (i.e., 60 days from discharge).**

Private Insurance

HMS adjusts private insurance accounts off the A/R system for billing. These accounts are not posted to a control account when the accounts are billed, as are Medi-Cal and Medicare outpatient accounts. Since these accounts are no longer on the A/R system, the CBO has no mechanism to monitor the collection activity or ensure that all accounts are dispositioned. The CBO needs to develop a mechanism to monitor collection activity to ensure that revenue is maximized and that all accounts are dispositioned.

Private insurance payments are posted to a control account when received. The related accounts are identified and re-established on the A/R system at the exact amount of the payment (not the original charges). Therefore, unpaid amounts (e.g., contractual adjustments, denied charges) are not recorded on the A/R system. As a result, private insurance adjustments/write-offs are understated on the A/R system. Additionally, accounts are not referred to TTC for write-off when appropriate.

Recommendations

7. **The CBO develop procedures to monitor collection activity on private insurance accounts and follow-up on accounts that are outstanding for an excessive time.**

8. **The CBO ensure that unpaid charges on private insurance accounts (e.g., contractual adjustments, and denied charges) are accurately reported on the A/R system.**

9. **The CBO refer private insurance accounts to TTC for write-off when appropriate.**

CBO Adjustments and Write-offs

Monitoring of Unbilled Accounts

During FY 1997/98, the CBO wrote-off $5.7 million in Medi-Cal charges at LAC+USC and King/Drew because billing time frames were exceeded. While this is only .7% of total Medi-Cal billings, improved controls over unbilled Medi-Cal accounts can further minimize these write-offs.

We reviewed ten inpatient Medi-Cal accounts that were written off because the billing time limit was exceeded to determine if the write-offs were appropriate and authorized

and if improvements could be made. The ten write-offs tested had been authorized by management, and had been appropriately written off the A/R system and referred to TTC as required. However, improved monitoring of unbilled accounts by the CBO's Billing Unit might have prevented the write-off of four of these ten accounts, as discussed below:

- Three accounts had all the documents needed to bill Medi-Cal. One account (with charges of $788,000) was billed, but not until after the time frame to bill Medi-Cal (i.e., one year) was exceeded. The other two accounts were awaiting the required Treatment Authorization Request (TAR) forms. However, even after receipt of the TARs, these accounts (with total charges of $367,000), were not billed. Adequate follow-up by the Billing Unit would likely have prevented these write-offs, and the accounts could have been collected.

- One account was originally pending Medi-Cal eligibility. Once Medi-Cal eligibility was established, the required billing documents were not requested and the account (with $80,000 in charges) was never billed.

The CBO lost potential revenue (approximately $114,000) by not effectively monitoring these unbilled accounts. All four accounts had charges of more than $77,000. Such high dollar accounts should be monitored more closely. The Billing Unit Manager stated that they recently implemented new monitoring procedures that will address the problems noted. The CBO management should ensure that the procedures are implemented and effective in ensuring that accounts are billed timely.

Recommendation

10. The CBO management ensure that effective monitoring procedures for unbilled Medi-Cal accounts have been implemented to ensure that accounts are billed timely.

TAR Delays

Medi-Cal will not reimburse inpatient services provided to Medi-Cal patients without an approved TAR. The TAR documents the number of days approved for Medi-Cal reimbursement based on the necessity of the medical services provided. Four of the ten accounts we reviewed were written off because a TAR form was not obtained.

We determined that the CBO appropriately requests/monitors outstanding TARs. However, we also noted that according to an activity report prepared by the CBO, 59% (or about $3.3 million) of the LAC+USC accounts written off during FY 1997-98 because of billing time limits were written off because TARs were not being received by the CBO. In comparison, the CBO reports that only 21% of King/Drew accounts are written off for this reason.

The internal control report (issued on June 18, 1999) prepared in conjunction with the annual audit of the County's financial statements also noted an inordinate number of missing TAR forms at LAC+USC. This report contained recommendations to reduce the number of outstanding TAR forms. DHS' response to these recommendations indicates that actions are being taken to correct the problem. Accordingly, we will again review this area in the future.

Use of Adjustment/Write-off Codes

Each write-off and adjustment to accounts receivable is coded. DHS Revenue Management has established guidelines for using the various write-off and adjustment codes. These codes should be used uniformly by each hospital. When appropriately applied, the coding process allows management to monitor write-offs and adjustments by reason. Inconsistent use of adjustment codes prevents management from effectively comparing adjustments among facilities. In February 1999, DHS Revenue Management updated the standardized adjustment codes.

During our review, we noted several instances of adjustment codes being used inconsistently. DHS Revenue Management stated that facilities should have implemented the updated adjustment index at the beginning of FY 1999-00. However, there was no required deadline for implementation. Based on discussions with DHS hospitals, most stated that they have implemented the updated adjustment codes. To ensure that all facilities use adjustment/write-off codes uniformly, DHS should require all facilities to implement the updated adjustment codes and monitor for consistent use and unusual fluctuations.

Recommendation

11. **DHS Revenue Management require all facilities to implement the updated adjustment codes and monitor for consistent use and for unusual fluctuations.**

AR REPORT.KM.DOC

MARK FINUCANE, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
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BOARD OF SUPERVISORS

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Fifth District

October 5, 1999

TO: Alan T. Sasaki
Auditor-Controller

FROM: Mark Finucane
Director of Health Services

SUBJECT: **CONSOLIDATED BUSINESS OFFICE - ACCOUNTS RECEIVABLE WRITE-OFF AND ADJUSTMENT REVIEW**

Attached is our response to the Auditor-Controller Audit Branch's review of the accounts receivable write-offs and adjustments at the Department of Health Services' Consolidated Business Office.

We concur with your recommendations and have taken or are taking action as recommended.

If you have any questions or require additional information, please let me know or your staff may contact Sachi Hamai at (213) 240-7901.

MF:sm

Attachment

c: Fred Leaf
Gary Wells

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUBJECT: CONSOLIDATED BUSINESS OFFICE (CBO) ACCOUNTS RECEIVABLE (A/R) WRITE-OFF AND ADJUSTMENT REVIEW

AUDITOR-CONTROLLER RECOMMENDATION #1

The CBO reconcile Health Management Systems, Inc., (HMS) activity to the A/R system and follow-up on any discrepancies to ensure the accuracy of A/R data and to ensure that all accounts are billed processed.

DHS Response

We concur. Effective with the July 1999 billing cycle, the CBO has eliminated the control account process for Outpatient (O/P) Medi-Cal and Medicare accounts. As a result, HMS processing activity will be within the A/R system parameters. Since all accounts will be on the A/R system and monitored for timely processing, a reconciliation will no longer be necessary. Control accounts established prior to July 1999 will be closed by February 1, 2000. The CBO will implement enhanced account processing procedures and billing protocols for HMS and will assign additional staff to ensure HMS' billing and processing is appropriate and timely.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #2

The CBO develop procedures to monitor the effectiveness of HMS' billing and follow-up activity by reviewing accounts assigned to HMS, on a sample basis, to ensure accounts are processed appropriately and timely.

DHS Response

We concur. The CBO will implement enhanced procedures to monitor HMS' effectiveness in billing and follow-up. The CBO will perform periodic sampling to ensure HMS is processing accounts appropriately and timely.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #3

The CBO instruct HMS to return denials requiring write-off (i.e., hospital responsible denials) to the CBO for management's review/approval and referral to TTC for write-off when appropriate.

DHS Response

We concur. HMS was instructed on July 7, 1999 to create listings of denials requiring write-off and to provide them to the CBO for review. The CBO will refer accounts to TTC and/or adjust the accounts, as appropriate. CBO will also implement denial protocol/processing guidelines for HMS which will outline actions to be taken by HMS and the CBO to properly disposition all accounts which have been denied.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #4

The CBO require HMS to use the appropriate code when adjusting denied claims on the A/R system and monitor denials on HMS assigned accounts for unusual trends/fluctuations.

DHS Response

We concur. Elimination of control account use (see DHS Response to Recommendation #1) will address this issue. However, in addition, the CBO will implement enhanced protocols which will indicate the A/R codes to be used by HMS and the CBO when adjusting denied claims. The CBO will also work with HMS to develop a monthly trend report to monitor all denials.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #5

The CBO investigate significant fluctuations in the number of accounts transferred to USCB by HMS for appropriateness.

DHS Response

We concur. The CBO will prepare a monthly report on all accounts transferred to USCB. This report will identify and explain any significant fluctuation.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #6

CBO revise the PHP Unit's procedures to ensure that PHP/Medi-Cal accounts are billed within the State required time frame (i.e., 60 days from discharge).

DHS Response

We concur. The CBO will work with HMS and the facilities' Patient Financial Services and Medical Records operations to implement enhanced procedures to help further ensure that PHP/Medi-Cal accounts are billed within the State required time frames. The PHP Unit will be responsible for monitoring each area's compliance with the procedures.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #7

The CBO develop procedures to monitor collection activity on private insurance accounts and follow-up on accounts that are outstanding for an excessive time.

DHS Response

We concur. The CBO will implement enhanced procedures to monitor collection activity on private insurance accounts, including timely follow-up, and to ensure that all the accounts are on the A/R system.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #8

The CBO ensure that unpaid charges on private insurance accounts (e.g., contractual adjustments, and denied charges) are accurately reported on the A/R system.

DHS Response

We concur. The CBO will implement procedures to ensure that unliquidated insurance accounts are properly dispositioned (referred to TTC or written-off the A/R) and are accurately reported on the A/R system.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #9

The CBO refer private insurance accounts to TTC for write-off when appropriate.

DHS Response

We concur. The CBO will implement enhanced procedures to ensure that unliquidated insurance accounts are properly dispositioned (referred to TTC or written-off the A/R) and are accurately reported on the A/R system. The CBO will also instruct HMS to

timely return private insurance accounts which are no longer collectible so these accounts can be referred to TTC and/or an outside agency for further collection efforts.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #10

The CBO management ensure that effective monitoring procedures for unbilled Medi-Cal accounts have been implemented to ensure that accounts are billed timely.

DHS Response

We concur. The CBO will implement enhanced procedures to help ensure unbilled Medi-Cal accounts are billed timely. In addition, a senior staff person will be assigned to review all aged inpatient accounts nearing statute to ensure all possible actions have been taken to recover revenue.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #11

DHS Revenue Management require all facilities to implement the updated adjustment codes and monitor for consistent use and for unusual fluctuations.

DHS Response

We concur. Revenue Management will review the facilities' adjustment index in order to validate compliance with the standardize codes. Revenue Management will also monitor selected adjustment codes for unusual fluctuations.

Target Implementation Date: December 1, 1999

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

November 5, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: DEPARTMENT OF HEALTH SERVICES
DELINQUENT SELF-PAY ACCOUNTS FOLLOW-UP

At the request of the Audit Committee, we have reviewed the status of the eight recommendations from our July 2001 report on the Department of Health Services' (DHS) Delinquent Self-Pay Accounts. Our report included findings and recommendations related to DHS' self-pay collection policies and procedures, patient payment plans and referrals to the County's outside collection agency.

Status of Recommendations

Overall, DHS is taking action to implement the recommendations from our prior report. Of the eight recommendations, three are fully implemented and five are partially implemented. DHS needs to take action to ensure that all recommendations are fully implemented and remain implemented.

The detailed status of the eight recommendations is discussed below.

Recommendation # 1

DHS Administration develop and implement standard self-pay billing policies and procedures, including increased in-house billing efforts and improved timeliness of such billings and timely referrals to USCB.

Status: IMPLEMENTED

Our initial review disclosed that DHS facilities did not have standardized procedures or timeframes for billing self-pay accounts or for referring the accounts to the outside collection agency.

In response to our recommendation, DHS Revenue Management (RM) developed a matrix of the different procedures and timeframes used by DHS facilities to bill/refer patient accounts. A committee of facility billing staff reviewed the matrix and evaluated the billing/referral process. Based on the committee's recommendations, RM developed standardized timeframes for each step in the process. The facilities' computerized accounts receivable systems were updated to reflect the standard timeframes. Implementation of the standardized billing/referral timeframes began in April 2002.

Recommendation # 2

DHS Administration require the facilities to consistently track and report self-pay collection data on an ongoing basis to assess the effectiveness of collection efforts.

Status: PARTIALLY IMPLEMENTED

Our initial review disclosed that the facilities and DHS did not monitor the facilities' self-pay collections. This information is needed to enable the facilities and DHS to assess the effectiveness of their collection efforts and to take corrective action as appropriate.

RM developed a list of categories (e.g., inpatient, outpatient, insurance deductibles, etc.) for the facilities to use in reporting self-pay collections. These categories provide more detail than was previously available. The facilities submitted their first reports to RM in March 2002. RM prepared a summary of the facilities' reports comparing year-to-date collections for all facilities to FY 2000-01 total collections. However, we noted that the reports only show the actual amounts collected and did not indicate the amounts billed. DHS indicated that they monitor the collections by comparing the amounts collected to the prior year collections. However, without information on the amounts billed, DHS may not be able to fully assess the collection efforts of its facilities.

Recommendation # 3

DHS Revenue Management conduct a pilot study to evaluate the cost effectiveness of establishing payment plans for self-pay patients.

Status: PARTIALLY IMPLEMENTED

RM is conducting a pilot study for patient payment plans at Olive View Medical Center (OVMC). From May 1, 2002 until January 31, 2003, OVMC financial screening staff is supposed to randomly select a total of 40 self-pay patients. These patients will complete a "Plan of Payment Agreement" with a monthly installment payment, based on the patient's financial ability.

OVMC did submit a quarterly report on the pilot to RM on August 31, 2002. However, as of September 2002, OVMC has not been successful in its attempts to get patients to voluntarily enroll in the pilot program. While DHS does have plans for OVMC to submit quarterly reports and for RM to evaluate the cost/benefit of the payment plan program in April 2003, those plans will be impossible to implement if patients do not enroll in the pilot. If OVMC continues to be unable to get patients to participate voluntarily in the pilot, the Department may need to consider whether they can require patients to participate.

Recommendation # 4

DHS Administration ensure all facilities request scheduled admission self-pay patients to make a down payment and sign a statement of responsibility.

Status: IMPLEMENTED

During our initial review, we noted that Harbor-UCLA Medical Center (H/UCLA) was not complying with the DHS policy to request scheduled admission self-pay patients to make a down payment and sign a statement of responsibility for the hospital charges.

After an unsuccessful effort to enforce the policy in September, 2001, H/UCLA Revenue Management did implement this recommendation on September 13, 2002. We noted that scheduled admission self-pay patients are now required to make a down payment and sign a statement of responsibility.

Recommendation # 5

DHS Administration ensure the facilities monitor self-pay accounts and refer accounts to the outside collection agency timely.

Status: PARTIALLY IMPLEMENTED

In October 2001, RM issued a memo to DHS facilities indicating that self-pay accounts need to be monitored monthly, and referred to the outside collection agency in a timely manner. The standardized billing/referral timelines, implemented in April 2002, require inpatient accounts to be referred to the outside collection agency within 59 days.

We reviewed self-pay accounts at Harbor/UCLA and the Centralized Business Office (CBO), which bills for LAC+USC Medical Center (LAC+USC). We noted that Harbor/UCLA has reduced their self-pay accounts over 240 days old from 962 in April 2001 to 611 in April 2002. LAC+USC's self-pay accounts over 270 days old (the facility's previous monitoring timeframe) increased from 220 in April 2001 to 235 in April 2002.

We also noted that CBO and LAC+USC do not adequately monitor self-pay accounts. CBO is supposed to send a list of accounts over 270 days old to LAC+USC Patient Financial Services (PFS) for follow up. However, we tested seven accounts over 270 days old and noted that CBO did not refer five of them to PFS as required. The five accounts ranged from 326 days to 670 days before they were referred to PFS.

Once an account is referred to PFS, PFS is required to review the account and to provide the information needed to bill the account to CBO. We noted that PFS does not always follow up on accounts referred by CBO. We tested five accounts and found that, for two accounts, PFS did not respond to CBO's request for billing information. As a result, one of the accounts exceeded the Medi-Cal billing deadline. For two other accounts, PFS did not respond to CBO until an average of 230 days after CBO inquired about the accounts. For the last account, PFS had already provided the information needed to bill the account to CBO. However, CBO had lost the information.

DHS Revenue Management needs to ensure that the facilities monitor their self-pay accounts and comply with the new timeframes for referring accounts to the outside collection agency.

Recommendation # 6

H/UCLA management establish and implement a policy to ensure aged self-pay accounts are monitored on a regular basis.

Status: IMPLEMENTED

H/UCLA management issued a policy in July 2001 requiring Patient Accounting (PA) to monitor self-pay accounts on a monthly basis, with an emphasis on accounts over 240 days old. As indicated in our follow up to Recommendation # 5, H/UCLA has reduced the number of their self-pay accounts over 240 days old. However, as noted earlier, DHS and H/UCLA need to ensure that H/UCLA complies with the new timeframes for referring self-pay accounts.

Recommendation # 7

DHS Revenue Management establish a policy requiring all ER facilities to provide patients with information regarding payment options after the medical evaluation has been completed and monitor for compliance.

Status: PARTIALLY IMPLEMENTED

DHS RM has indicated that implementation of this recommendation will require revisions to DHS' financial screening policy and a new patient General Consent Form. DHS has submitted the revised policy to County Counsel for review and developed the revised Consent Form. The Consent Form must be approved by the DHS' Forms

Committee. RM indicated that approval by the Forms Committee could take several months.

Recommendation # 8

DHS and Treasurer and Tax Collector (TTC) management evaluate the cost effectiveness of TTC's collection efforts and, if the efforts are not cost effective, stop performing collection efforts.

Status: IMPLEMENTED

In December 2001, DHS RM and TTC agreed that TTC would evaluate the cost effectiveness of their collection efforts. TTC submitted the analysis to RM on February 15, 2002. The analysis compared TTC's collections from July 1, 2001 to December 31, 2001 to the cost of TTC's collection efforts. Based on the analysis, TTC indicated their collection efforts are cost effective and should continue. RM indicated that they would conduct this analysis again for the period January 1, 2002 to December 31, 2002 during March 2003.

Review of Report

We discussed our report with DHS and TTC management. The Department indicated general agreement with our findings and that they are taking action to address the remaining recommendations. DHS will issue a response to this report within 60 days as required by Board policy.

We thank DHS management and TTC staff for their cooperation and assistance during this review. If you have any questions, please call me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:JS

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